
Terms of Reference

Investor Roadmap:

Municipal and Local Barriers to Investment

Background

Recent experience in many developing countries has shown that macroeconomic liberalization does not always yield the expected positive inflow of private investment and economic growth. Rather, in many cases, foreign direct investment has failed to materialize at anticipated levels, local investment has remained limited and informal small and micro enterprises, while of increasing commercial importance, are failing to "graduate" to the formal sector. These disappointments can often be traced to the failure to follow macroeconomic policy reforms at the national level with effective "second tier" reforms to remove the remaining regulatory and administrative investment constraints, including those at the municipal and local government levels. When left unresolved, these constraints, including everything from complex business licensing procedures to long delays for building permits, can be overwhelming and deter new investment as well as raise the operating costs of existing businesses.

Although national governments in many countries have started to devolve an increasing amount of power and responsibility to local authorities, city and local officials often lack the experience to successfully diagnose and reform the policy and procedural bottlenecks that impede private sector growth. Consequently, municipal government procedures and services have remained cumbersome and bureaucratic, and the private sector has been stifled rather than encouraged. This failure also exacerbates social problems related to provincial poverty, geographically uneven development, unemployment and mass migration to the capital. Many national policymakers have been unable to rectify the fact that municipal governance is often the weak link in their investment promotion efforts.

The Investor Roadmap: Municipal and Local Barriers to Investment ("Municipal Roadmap") is a program of activities designed to identify municipal and local constraints to investment and catalyze their removal. The Municipal Roadmap methodology is based in part on the process of "reinventing" government and the way it operates, an approach that has been used successfully at the state and local government levels in the United States, Great Britain and New Zealand but not widely applied in developing countries. The Municipal Roadmap is similar to the standard Investor Roadmap

that has been conducted successfully by TSG staff on five continents. Unlike the standard Investor Roadmap, however, the focus here is on municipal and local constraints. Once the constraints are identified, a series of interventions will be conducted to reengineer local government procedures, simplify regulations and promote generally an investment environment that will encourage and facilitate, rather than hobble, private investors. Further technical assistance can be provided during a second phase of activities to build process improvement capacity into existing municipal and local government agencies; this helps to ensure that reform efforts are ongoing.

Methodology

The Investor Roadmap

The Investor Roadmap is an analytical methodology that delineates in a step-by-step fashion the various processes a business must complete to become operational in full compliance with all laws, regulations, procedures, and institutional practices in a given jurisdiction. The Roadmap model combines diagnostic analyses, specific recommendations, consensus-building efforts and technical assistance to facilitate reforms. Investor Roadmaps have been conducted by TSG in various countries and have been very effective in catalyzing reforms to streamline burdensome regulations and procedures that constrain private investment.

The adaptability of the Roadmap methodology has been demonstrated in many countries with varying levels of economic development. The diagnostic methodology involves interviews with the government officials and members of the private sector, and analysis of laws and regulations. The usual Roadmap model categorizes investor interactions with government into several processes, grouped into four general areas, typically as follows:

- (1) Reporting – business registration; sectoral licensing by line ministries; local licensing by municipalities; registering intellectual property; registering and paying taxes; acquiring investment incentives.
- (2) Employing -- investor entry; importing expatriate labor; hiring local employees.
- (3) Locating -- acquiring land; site development; utility hook-ups; environmental compliance.
- (4) Operating – product standards certification; import and export licensing; customs clearance; duty drawback; bond release; currency conversion; repatriating earnings.

These processes are subjected to a step-by-step analysis, identifying regulatory hurdles and administrative bottlenecks that impede investment. The analysis generally addresses issues of concern to both local and foreign investors. The diagnostic report also contains recommendations of specific reforms for each constraint in order to improve regulations and streamline procedures.

The diagnostic report is typically used as a tool to educate government officials about the investment constraints. Process reform workshops, attended by staff of the relevant national agencies and facilitated by process reengineering consultants, encourage government staff to re-examine current practices and to identify solutions. The workshops produce “Action Plans” targeting certain priority processes and agencies for urgent reform. Further technical assistance can be provided in a second phase of activities to implement the reforms and build process reform capacity within the agencies. The overall goal is to make the agencies more efficient, flexible, and responsive to investors.

The Municipal Roadmap

As stated above, the Municipal Roadmap differs from the typical Investor Roadmap in that the analytic focus and technical assistance efforts are concentrated on catalyzing reforms at the municipal and local government levels. Some national processes are not germane to municipal governance and are therefore excluded from the analysis. These include immigration controls, customs clearance, currency conversion and repatriation. Other matters are particularly important in the municipal context and therefore receive special attention. These include implications of devolution initiatives, resource constraints at the local level, mechanisms for local revenue generation, investment promotion for a particular region or town, increasing private participation in the provision of municipal services, and rationalizing communications and responsibilities among national and local government agencies.

The goal of the Municipal Roadmap is to promote improved administration of investment-related local governance functions. This is accomplished through analyzing the capacity deficits and problems that investors face at the local level, catalyzing necessary policy and procedural reforms to correct institutional deficiencies, assisting the implementation of reforms, and establishing mechanisms to institutionalize ongoing performance measurement

and change efforts. The Municipal Roadmap is conducted in two phases, as described below.

Phase I: Delineating The Roadmap

The goals of Phase I are to identify regulatory and administrative barriers that operate at the municipal and local government level to impede investment, and to develop together with the relevant national and municipal government agencies an Action Plan for ameliorating these barriers. This will involve the preparation of a diagnostic report (identifying the barriers), followed by workshops aimed to catalyze necessary reforms (drawing up the Action Plan). These activities will be conducted as follows.

Diagnostic Report:

Determine the Policy Framework. The consultants will first determine the formal relationship between national, local (e.g., provincial) and municipal governments with regards to fundamental investment processes, as stated in national law and policy. This will include the division of administrative responsibilities for such functions as business licensing and registration, taxation and incentives, land and utility provision. The consultants will also ascertain the formal policy governing local recognition of nationally issued permits, incentives and approvals.

Identify Local Government Practices. The consultants will ascertain the actual administrative practices as applied to investors in each of three to five (can be more if required) municipalities covered. The consultants will identify processing requirements, procedures, costs and delays for each of the following processes:

- local business licensing
- local approval in obtaining investment incentives
- local tax registration and payment
- obtaining and registering rights to publicly owned land
- obtaining and registering rights to privately owned land
- building permits for commercial and industrial facilities
- environmental impact assessments and clearances
- other environmental monitoring procedures
- electricity, water, telecom and other utility hook-ups
- on-site service calls to correct utility delivery problems
- local labor market regulation as applying to both foreign and domestic employees

Collect Data. The consultants will collect all the forms required for the above processes at each municipality covered by the analysis. The consultants will also collect information on the degree of transparency in the application systems, the responsiveness of local officials, and any regulatory, management, and financial resource constraints on the process.

Process Analysis. The consultants will draft a diagnostic report, describing and analyzing the procedures and regulations and identifying the investment constraints. The analysis will reveal process dependencies and needless duplication between local and national government, specifically those that cause delays, increase costs, or engender other problems for investors. The report will incorporate flow charts and diagrams illustrating the investment process, as well as comparative data and tables benchmarking municipal and local procedures against one another (and, if useful, against other countries). The study will prescribe remedial steps to streamline red tape, build capacity, and ameliorate the investment barriers.

Validate Results. The initial conclusions of the diagnostic will be presented in a conference for appropriate representatives of national and local government and the private sector, who will have an opportunity to comment on and validate the results. Furthermore, the validation conference will be an important opportunity to build constituencies for reform.

Catalyze Reform

Convene Workshops. A series of workshops will be held with appropriate officials of the municipal and local governments, national government agencies and in some cases the private sector. The workshops will educate participants about the investment constraints and develop proposals for reform. Emphasis will be placed on stimulating municipal employees to re-examine their roles in order to eliminate unnecessary activities and improve service levels. Participants will be given relevant sections of the diagnostic report prior to the workshops to begin formulating potential alternative approaches.

Create “Buy In.” The workshops will be segmented by activity to ensure that the scope of discussion remains focused on the topic area and will be designed to be interactive in their approach. As such, case studies of actual or theoretical issues will be prepared to facilitate discussion. Detailed participatory process-mapping exercises will raise the collective awareness and understanding of

the complexities faced by investors, moving all the participants closer to transparency, shared responsibility and improved communication.

Identify Solutions. The workshops will be structured to encourage problem solving among participants. In this manner, participants will have first-hand experience of how process re-engineering techniques can be most effectively applied to their own agencies. The participants will be encouraged to identify solutions to simplify investment processes, reduce the number of steps and clarify ambiguous or contradictory regulations.

Prepare Action Plan. The workshops will culminate in the preparation of an “Action Plan” identifying the most critical processes to be targeted for reform and the specific corrective steps that will reduce investment impediments at the municipal and local level. The Action Plan will include such issues as:

- (1) Identifying the two or three most critical processes and agencies/departments/offices to be targeted for reform;
- (2) Establishing measurable goals for each process, allowing the counterparts to document the achieved successes;
- (3) Designing measurement systems that can be used to assess progress;
- (4) Planning an ongoing dialogue between government agencies and the private sector on reforms, in some cases including a public relations or press program.

Final Report. The consultants will prepare a final briefing report summarizing the proceedings of the workshops, discussing “lessons learned” and presenting a strategy for implementing the Action Plan.

Outputs

At the end of the first phase of activities, the following three outputs will have been generated:

- A complete Roadmap diagnostic report, including comparative benchmarking, will be submitted to each municipality or local government covered, as well as the national government. The report will allow government officials, business associations and individual investors to understand clearly the regulatory and administrative impediments to investors. In addition to process descriptions and analysis, the report will provide specific recommendations for reforms.

- A series of workshops will be held to leverage the diagnostic report into a government and private sector approved Action Plan for priority reforms. This will provide the foundation for basic changes in the way targeted municipal agencies operate, particularly as regards interaction with investors and with national government. These changes are expected to include simplification of forms, reduction in the number of procedural steps, rationalization of regulations and elimination of duplicative processes and dependencies.
- A Final Report will summarize the proceedings of the workshops, discuss “lessons learned” and present a strategy for implementing the Action Plan.

Phase II: Changing The Roadmap

During the second phase, a change management specialist will be assigned as a long-term resident advisor to the appropriate national and local government agencies. The resident advisor will provide technical assistance to implement the Action Plan that was developed during Phase I and develop reforms for other processes as indicated in the diagnostic report. This will be achieved in the following manner.

Assist Targeted Agencies. The resident advisor will establish a change management team within each organization targeted in the Action Plan. The advisor will then work with each such team to design and implement the programs necessary to accomplish the reforms stated in the Action Plan. In this capacity, the advisor will help the targeted institutions refine their mission statements, client needs assessment, service provision and incentive structures. Anticipated results will include a fundamental restructuring of the targeted agencies into service-oriented, results-driven organizations.

Additional Process Reforms. The resident advisor will organize a series of national workshops to address the wider range of processes that were identified in the diagnostic report but not prioritized in the Action Plan. These workshops will utilize standard Roadmap process mapping techniques to develop further action plans for new procedural reforms. Additional specialist consultants can be brought in to work closely with

government agencies to draft new legislation and regulations as necessary.

Tools and Training. The resident advisor will use various tools and training techniques, as appropriate, to continue the process of identifying and eliminating regulatory and administrative bottlenecks through ongoing process improvement activities, including:

- instituting the use of small business surveys, focus groups, and hidden inspectors;
- providing customer service training to both managers and front-line employees;
- empowering front-line employees through the training of generalists and creation of Super Counters;
- recommending ways of motivating employees through both monetary and non-monetary forms of recognition;
- increasing accountability through simple tools such as the use of name tags, suggestion boxes, and the press.

Performance Measurement Systems. The resident advisor will design and introduce systems that encourage continuing improvements to the performance and delivery of high quality services by municipal and local governments. Generally, these systems will include performance measurement schemes and recognition-based incentive programs. This will include the development of internet-linked, or other electronic or non-electronic information-based systems to publicize performance data, leading to increased transparency, accountability and higher levels of service.

Benchmarking System. The resident advisor will design a ongoing local and municipal benchmarking process to continuously compare and update the relative performance of the different municipalities in the core investment-related government processes. This system can be connected to an incentive system in order to encourage a system of “friendly competition” between local authorities to provide superior service.

Outputs

The primary output of the second phase is implementation of reform. The result will be the fundamental restructuring of specific municipal and local government agencies into service-oriented, results-driven organizations. Phase II activities will create a self-generating system of process improvement within targeted

agencies, with change management teams created in each agency. The work program will focus on designing and implementing a program of administrative reform that will allow local government departments to better respond to small business needs. This will include the establishment of feedback mechanisms to further increase accountability and deal with complaints, and performance monitoring and municipal benchmarking systems to enable government officials and private investors to measure and compare performance.

The long-term advisor will report on the progress of the project on a quarterly basis, culminating in an end-of-project report detailing the reforms implemented and their impact on the various municipalities using the measurement system developed. Present capabilities and established goals will be compared with those of other countries and international best practices.

The final important output is institutionalization of the reform process. Upon completion of the project, a change management team will be created in each municipality and given the tools to manage process improvement exercises in the future. This will enable actors within the municipalities to assume roles as “change agents,” ensuring that procedural improvement is ongoing.

Level of Effort

The level of effort (LOE) will vary with the number of local regions and municipalities to be covered, the status of other Roadmap-related work in the country, the number of phases to be undertaken. For the purposes of this outline Scope of Work, we are assuming three to five local regions and cities per engagement. The addition of more cities or towns will, of course, increase the LOE.

The Municipal Roadmap activities can be conducted simultaneously with a full national Investor Roadmap or independently in a country that has already undergone a national Investor Roadmap, or one that has not. LOE estimates in each situation are given separately for each case as follows:

- Country A – Complete Investor Roadmap, including Municipal and Local Barriers
- Country B – Municipal and Local only; already underwent main Investor Roadmap

- Country C – Municipal and Local only; has not undergone main Investor Roadmap.

Working with these categories, we have derived the following LOE estimates for each phase of the Municipal Roadmap, using the standard assumption of three to five local regions and cities.

Phase I - Two full-time short-term consultants

- Country A – 160 person days
- Country B – 95 person days
- Country C -- 110 person days

Phase II – LOE varies extensively depending on outcome of Phase I.

- Long-term resident advisor 120 – 480 person days
 - Possible short-term policy/legal specialist, 10-80 days
- Note:* In a Country A, the Phase II scope of work can include both main Roadmap and Municipal Roadmap implementation.